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Adam Smith's Economic Case Against Imperialism

Antiwar.com, November 28, 2005

by David R. Henderson

Sometimes, when I recommend that people read Adam Smith's *Wealth of Nations* (the full title is *An Inquiry into the Nature and Causes of the Wealth of Nations*), I am met with a supercilious snort, as if nothing that was written in 1776 could be relevant to today. A very common attitude seems to be, "That is sooo 18th-century." I think what it really shows is that the "snorter" has simply not read Adam Smith. Smith's book is chock-full of insights: that when competitors get together they often collude; that governments can't stop such collusion but should refrain from facilitating it; that countries with private property, free trade, and low taxes are the ones that do well; that the incentives of universities are so messed up (yes, even back then) that much less learning takes place than could; and, of more immediate interest, that imperialism doesn't work.

You read it right. Adam Smith was one of the most outspoken, clear-thinking, and well-reasoning spokesman against imperialism in the 18th century. One particular imperialist this Scotsman took on was Britain, and one particular instance was Britain's trying to hold on to the 13 colonies. Smith didn't chant some 18th-century version of "No blood for oil." Instead, he calmly and numerately toted up the costs of imperialism to the British people, estimated the benefits to Britain, and concluded that the costs greatly exceeded the benefits.

The benefits, in Smith's estimate, were the monopoly profits that British merchants had on sales to consumers in the colonies. The costs that Britons bore were the costs of using the military to defend that monopoly. Here's an excerpt from Smith:

"The maintenance of this monopoly [on trade with the American colonies] has hitherto been the principal, or more properly perhaps the sole end and purpose of the dominion which Great Britain assumes over her colonies. ... The Spanish war, which began in 1739, was principally a colony quarrel. Its principal object was to prevent the search of the colony ships which carried

on a contraband trade with the Spanish Main. This whole expence is, in reality, a bounty which has been given in order to support a monopoly. The pretended purpose of it was to encourage the manufactures, and to increase the commerce of Great Britain. But its real effect has been to raise the rate of mercantile profit. ... Under the present system of management, therefore, Great Britain derives nothing but loss from the dominion which she assumes over her colonies." 1

Later, Smith elaborated, showing that the costs to the British government of defending the 13 colonies were greater than the benefits to the British. He wrote:

"A great empire has been established for the sole purpose of raising up a nation of customers who should be obliged to buy from the shops of our different producers all the goods with which these could supply them. For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the whole expence of maintaining and defending that empire. For this purpose, and for this purpose only ... a new debt of more than a hundred and seventy millions has been contracted over and above all that had been expended for the same purpose in former wars. The interest of this debt alone is not only greater than the whole extraordinary profit which it ever could be pretended was made by the monopoly of the colony trade, but than the whole value of that trade...." 2

That's not all. Smith pointed out that the costs and benefits of maintaining the colonies were not symmetrically distributed and that this accounted for why the British wouldn't give up their colonies voluntarily. Consider this justly famous passage.

"To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers. Such statesmen, and such statesmen only, are capable of fancying that they will find some advantage in employing the blood and

treasure of their fellow-citizens to found and maintain such an empire. Say to a shopkeeper, 'Buy me a good estate, and I shall always buy my clothes at your shop, even though I should pay somewhat dearer than what I can have them for at other shops'; and you will not find him very forward to embrace your proposal. But should any other person buy you such an estate, the shopkeeper would be much obliged to your benefactor if he would enjoin you to buy all your clothes at his shop." 3

In other words, Smith is saying, the costs of maintaining colonies in order to maintain a preferential trade arrangement exceeded the benefits – thus his statement that the project is unfit for a nation of shopkeepers. But the cost to the shopkeepers is a small fraction of the cost to Britain – they pay only their pro rata share – whereas the shopkeepers get the lion's share of the benefits. If the shopkeepers had to bear the whole cost of the arrangement, the benefits would not be worth it. Thus his analogy to the sucker deal that someone hypothetically offers a shopkeeper: buy me a house and I'll promise to buy all my goods from you from now on. The shopkeeper would quickly reject such a deal. But if the shopkeeper can find others to pay for the house and he pays only a fraction, the deal might be in the shopkeeper's interest. Using the asymmetric distribution of costs and benefits to explain why governments take actions that are not in the general interest – whether the special interest benefited be farmers, seniors, or Northrop Grumman – has become part of the tool kit of the modern economist, due to the "public choice" revolution started by James Buchanan and Gordon Tullock. But notice that Smith had the idea two centuries earlier.

Smith believed the British government would try to hang on to colonies by force. Smith wrote:

"To propose that Great Britain should voluntarily give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war as they might think proper, would be to propose such a measure as never was, and never will be adopted, by any nation in the world. No nation ever voluntarily gave up the dominion of any province, how troublesome soever it might be to govern it, and how small soever the revenue which it afforded might be in proportion to the expence

which it occasioned. Such sacrifices, though they might frequently be agreeable to the interest, are always mortifying to the pride of every nation, and what is perhaps of still greater consequence, they are always contrary to the private interest of the governing part of it...." 4

Smith even predicted the Revolutionary War and implicitly predicted its outcome. He wrote:

"[I]t is not very probable that they will ever voluntarily submit to us; and we ought to consider that the blood which must be shed in forcing them to do so is, every drop of it, blood either of those who are, or of those whom we wish to have for our fellow-citizens. They are very weak who flatter themselves that, in the state to which things have come, our colonies will be easily conquered by force alone." 5

Wise words from a wise man.

Notes

1. From Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin M. Cannan, Chicago: University of Chicago Press, 1976, Volume Two, Book IV, Chapter VII, Part III, pp. 130-131. Available online at: <http://www.econlib.org/library/Smith/smWN.html>.
2. *Ibid.*, Volume Two, Book IV, Chapter VIII, p. 180.
3. *Ibid.*, Volume Two, Book IV, Chapter VII, Part III, p. 129.
4. *Ibid.*, Volume Two, Book IV, Chapter VII, Part III, p. 131.
5. *Ibid.*, Volume Two, Book IV, Chapter VII, Part III, p. 138.

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